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# AGRICULTURAL COOPERATION

LEGAL, ECONOMIC, AND ORGANIZATION INFORMATION COLLECTED BY THE DIVISION OF COOPERATIVE MARKETING,  
BUREAU OF AGRICULTURAL ECONOMICS, UNITED STATES DEPARTMENT OF AGRICULTURE, WASHINGTON, D. C.

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June 25, 1927.

Vol. V, No. 13.

## FARMERS AS COOPERATORS

Forty-six per cent of the farmers participating in cooperative marketing or purchasing, in the Northern and Western States are members of more than one cooperative enterprise. Twenty-nine per cent belong to two associations, 12 per cent to three associations, 4 per cent to four, and about one per cent to five or more associations. These are the conclusions reached from a study of more than 10,000 reports from 20 states in which the cooperative method of handling farm business is of long standing, and in which the volume of cooperative business is large. The study, which was made by the Division of Cooperative Marketing of the United States Department of Agriculture, did not take into consideration memberships in credit societies, mutual insurance companies, nor mutual telephone companies. Had such memberships been included the percentages would have been much higher than those given.

Cooperative intensity varies greatly from state to state. In those states in which the merits of the cooperative method of doing business have long been recognized, the farmers seem to be members of more different enterprises than in those states in which cooperation has become of importance only in recent years.

Minnesota appears to be a state where the farmers have a strong leaning toward the cooperative method of marketing and purchasing. Eighty-two per cent of the farmers participating in cooperative activity are members of two or more associations: 35 per cent are members of two organizations, 24 per cent are members of three associations, 16 per cent are members of 4 associations, and 7 per cent are members of five or more different associations. Only 18 per cent of the farmer cooperators of the state belong to but one association.

Thirty-six per cent of the California cooperators are members of two associations; 15 per cent, members of three; 3 per cent, members of four; and 1 per cent, members of five or more.

The percentages in some of the other states, belonging to two or more associations, are as follows: Indiana, 54 per cent; South Dakota, 54 per cent; Ohio, 52 per cent; Wisconsin, 50; Nebraska, 48; Kansas, 48; North Dakota, 45; New York, 45; Iowa, 43.

The data collected indicate that the estimated 2,700,000 memberships in cooperative associations in the United States at the close of 1925 were held by 1,800,000 individuals.

### CRANBERRY EXCHANGE HANDLED BIG CROP

"Cranberry growers invite disaster if they do not build their consumer demand and marketing plans in advance of production" is the opinion of the general manager of the American Cranberry Exchange, New York City, as set forth in his annual report for the 1926-1927 season. The Exchange is the marketing agency for the associations serving the growers of Cape Cod, Long Island, New Jersey and Wisconsin.

The 1926 crop was the largest in the history of the cranberry industry. The Exchange handled the equivalent of 461,278 barrels of 100 pounds each. This was a larger quantity by about 18 per cent than was ever before delivered to the cooperatives for marketing. Furthermore, the crop was below the normal as to quality.

Net sales are reported by the management as \$3,198,200, and the average price for the season, for all berries of all kinds from all districts, as \$7.04 per barrel.

The Exchange handled 63.6 per cent of the total crop, which was a larger per cent than for the 1925-26 season when but 57 per cent of the crop was marketed through the organization, but a smaller per cent than for the 1924-25 season when 66 per cent was marketed cooperatively.

In anticipation of the large quantity of cranberries to be marketed, the management of the Exchange, early in the fall of 1926, planned an extensive advertising campaign directed toward the stimulation of consumer demand for this fruit. The leading women's magazines were used in October and November. Newspapers in a selected list of cities were used throughout the marketing season. Printed matter was sent direct to wholesalers and retailers. In fifteen key cities the wholesale and retail trade was visited by representatives of the growers. Arrangements were made with the domestic science lecturers of 24 of the leading radio stations and informative talks and recipes were put on the air twice weekly for fifteen weeks. Special efforts were made by the Exchange to build up business with hotels and restaurants. The total expenditures for advertising for the season were \$222,007. Of this amount 46 per cent was used for newspaper advertising, 25 per cent for advertising in national magazines and 2.6 per cent was expended for radio publicity. Three thousand five hundred dollars was expended with domestic economy schools for educational service, and \$5,511 for advertising in England. A loss of \$5,314 on shipments to England was charged to advertising.

The annual expenditures for advertising have varied from less than \$15,000 for the 1917-18 season to \$222,007 for the past season. The expenditure for the last five years was as follows: 1922-23, \$179,774; 1923-24, \$194,539; 1924-25, \$77,784; 1925-26, \$153,639; 1926-27, \$222,007.

For further information regarding the Exchange see Agricultural Cooperation for July 5, 1926, p. 279.

### SOUTHWEST AGENCY SELLS WHEAT FOR FOUR STATES

Formed early in 1926, the Southwest Cooperative Wheat Growers' Association, Kansas City, Mo., is serving as the central selling agency for four state associations of wheat growers, Kansas, Nebraska, Oklahoma and Colorado.

The sales agency is capitalized at \$200,000 of which \$190,000 is preferred stock with cumulative dividends of 8 per cent, and \$10,000 is common stock with dividends limited to 7 per cent. The common stock is divided equally among the four state organizations and carries all the voting power. At present all the preferred stock is held by the Kansas association, but it may be bought by each state association up to its proportional share.

Each state association is represented in the directorate of the Southwest Association by three directors chosen from among the directors of the state association. From these 12 directors the officers are selected. This makes it necessary that each person before he can serve as an officer of the sales agency must first be elected as a director in his own district, then be elected by the board of directors of his state as a director in the Southwest organization, and then by the board of directors of the Southwest as an officer.

At present the Southwest Cooperative Wheat Growers' Association operates two elevators, one of 400,000 bushels capacity at Leavenworth, Kans., which it owns and another of 1,000,000 bushels capacity at Kansas City, erected especially for the use of the association by a railroad company, is leased.

For services rendered, such as handling wheat through the elevators, for selling the wheat, for interest on advances, the agency makes the same charges as those made by all grain firms. From the operations of the 1926-27 season, as of March 31, net earnings amounted to \$104,000.

Provisions for distribution of net earnings is as follows: first, the dividend on preferred stock must be paid, then the dividend on common stock, then 10 per cent of the net earnings must be set aside as a sinking fund for retirement of the preferred stock. The balance may be prorated to each state, or if the directors should decide not to distribute the remainder of the earnings, each state association would be given credit for the amount of its pro rata share.

### BIG ELEVATOR PROGRAM FOR SASKATCHEWAN WHEAT POOL

Eighty-two more elevators at shipping points are to be added this year to the equipment of the Saskatchewan Cooperative Wheat Producers, Ltd., in line with its policy of supplying elevators at shipping points wherever the acreage and deliveries of grain justify such action. Some time ago 57 additional points were decided upon, and at a recent meeting the board of directors voted to call for bids for the construction of 25 more elevators. It is possible that the program may be extended even further the present season.

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### SOUTH DAKOTA THRESHERMEN HAVE PROTECTIVE ASSOCIATION

About 400 farmers in the main wheat belt of South Dakota are organized in a mutual association for furnishing workmen's compensation insurance. The organization which is known as the Brown County Threshermen's Protective Association, Aberdeen, was formed in 1918. It handles all claims for compensation, physicians' bills and hospital bills, against its members who are located in a number of counties in the northern part of the state. The average annual cost of membership is given in the annual report of the Industrial Commissioner of the state as \$12.36.

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### CANADIAN GRAIN COOPERATIVE ADDING ELEVATORS

Announcement is made by the management of the Alberta Cooperative Wheat Producers, Ltd., Calgary, that 100 country elevators will be added to the physical equipment of the organization in time for handling grain of the 1927 crop. Some of these elevators will be acquired by purchase and some will be erected. The past year the association operated 42 country elevators, 22 of which were bought and 20 built. Three elevators were operated during the 1925-26 season. The 42 elevators had handled 5,241,136 bushels of wheat of the 1926 crop up to the first of June. This was an average of 124,789 bushels per elevator. One elevator handled 266,979 bushels, and five elevators over 200,000 bushels each.

A site for a terminal elevator at Vancouver has been purchased by the association. At the present time the association has under lease at Vancouver a large terminal grain elevator.

The membership of the association was reported as 38,956 in May. These members controlled 3,684,727 acres of grain. The association marketed 45,000,000 bushels of wheat of the 1926 crop.

### COTTON MOVES DIRECT FROM FARMER TO SPINNER

During the season just closing more than one hundred cotton mills in the Carolinas, Georgia and Alabama have bought cotton from the 13 state associations federated into the American Cotton Growers' Exchange, Memphis, which functions as a sales agency. The cotton sold direct to the mills has come from every section of the cotton belt.

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### ANOTHER ADVANCE GOES TO SOUTH CAROLINA COTTON GROWERS

Something over \$300,000 was distributed in May to members of the South Carolina Cotton Growers' Cooperative Association, Columbia, in an additional payment of one cent a pound on cotton delivered last season. This was the second advance within 60 days and brings the amount already paid to 11 cents on strict low middling or better, and 8 cents a pound on lower grades. In 18 counties the checks for this advance were distributed to growers at meetings.

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### FIVE THOUSAND ESSAYS ON COOPERATION

Five thousand, seven hundred sixty-three essays have been submitted for the prizes offered by the Oklahoma Cotton Growers' Association, Oklahoma City, on the subject "The Marketing Contract of the Oklahoma Cotton Growers' Association." The contest was open to any boy or girl in the state under 21 years of age, with separate prizes for white and colored youth. Of the total number of essays submitted 4,964 were by white contestants and 799 by colored. This is the third essay contest conducted by the association.

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### TEXAS WOMEN TO STUDY CALIFORNIA COOPERATIVES

A number of the leading farm women of Texas are to have an opportunity to see and study the effect of cooperative marketing upon farm people and farm homes in California where it has been in operation over a period of years. A trip to California in July for this purpose has been planned by the educational director of the Texas Farm Bureau Cotton Association, Dallas. Opportunity will be given to visit the different farming communities. Schools, churches and farm homes will also be observed. Among the cooperatives to be visited are those handling citrus fruits, poultry products, dairy products, raisins, and walnuts.

### COTTON GROWERS' EXCHANGE AND TEXTILE INSTITUTE TO COOPERATE

A first step toward cooperation between cotton growers and spinners for the improvement of cotton varieties and solution of trade problems, was taken recently at a joint conference between the boards of directors of the American Cotton Growers' Exchange and of the Cotton Textile Institute, an organization formed recently by a group of cotton spinners, manufacturers and dealers, to help to stabilize the spinning industry.

The president of the American Cotton Growers' Exchange, in addressing the meeting, expressed the belief that there were few if any genuine conflicts of interests between the growers and the spinners. He pointed out that the cooperatives were anxious to eliminate waste and inefficiency; that they were already encouraging the farmers to grow the better grades of cotton sought by spinners; and that they would even change the types of cotton grown to suit the needs of the manufacturers. He suggested the appointment of a joint committee, made up of representatives from both organizations, to study matters of mutual interest and present their conclusions to their respective associations. It was his belief that the two organizations working together could do much toward bringing real prosperity to both groups.

Other speakers representing the growers, told of the work now being done in the way of producing the kind of cotton demanded by spinners. A few items may be mentioned. More than 50 per cent of the cotton grown by members of the North Carolina association measured "15-16" staple or better, and 76 per cent of it was middling or better. Much work has been done by the North Carolina College of Agriculture, through the study of cotton varieties and analyses of markets and market needs, for the benefit of both growers and spinners. The Texas Farm Bureau Cotton Association has bought 80,000 bushels of certified seed to aid its members in producing better cotton, and is planning to build 100 co-operative gins in order that it may gin the cotton to meet exactly the requirements of spinners and avoid gin cut cotton, plated bales, improper bagging, and other wastes and inefficiencies.

One manufacturer called attention to the fact that it was the first time in the history of the cotton industry that representatives of the growers, manufacturers, wholesalers and retailers, were all taking part in one meeting. Several of the representatives of the spinning and manufacturing interests spoke of the desirability of giving the farmers actual value for better grades of cotton, and one stated that there was no way in which this could be done at present except through the cooperatives. Another said that "association cotton was better graded and more reliable and more fully up to type than any other cotton being offered on the market."

The proposition for a joint committee will be presented at the next regular meeting of the Cotton Textile Institute.

### WALNUT ASSOCIATION REPORTS ON YEAR'S OPERATIONS

The 1926 season was one of the most unsatisfactory in the history of the California Walnut Growers' Association, according to the report of the general manager, recently issued. Receipts of unshelled nuts were 9,417 tons. Although this quantity was 80.2 per cent of the total California crop, it was the smallest quantity delivered by members in 10 years, and the quality of the nuts was not up to normal. Total sales of unshelled nuts amounted to \$5,327,474, compared with more than twice that amount for the preceding year. The cost of marketing was  $6\frac{1}{2}$  per cent of the opening price, compared with 5 per cent of the f. o. b. value in the preceding year.

The quantity of nuts handled by the association and the sales value for each of a number of recent years, are as follows:

Year	Unshelled walnuts	Sales
	(Pounds)	
1917	20,087,400	\$ 4,037,571
1922	40,111,800	9,213,727
1923	39,753,800	* 9,387,475
1924	34,975,100	* 9,625,530
1925	48,160,170	11,423,106
1926	18,834,000	5,327,474

\* Including shelled nuts.

Individual branding of all nuts, which was undertaken the past season for the first time, proved to be more successful than was anticipated. The machines were more efficient, the process less expensive, and the value of the advertising greater than expected. One difficulty was the inability to fill orders for the best grades. This helped to create a demand for the second grade which it is proposed to sell largely through the chain store systems of the country.

The advertising investment of the association for the past few years has averaged but little more than 2 per cent of sales. Due to the light tonnage the 1926 percentage was about  $2\frac{1}{2}$  per cent of sales. General expenses, including salaries, rent, all office expenses and supplies, travel, taxes, insurance, etc., amounted to  $1\frac{1}{2}$  per cent of sales; trade discount, to 1 per cent; and brokerage, to  $1\frac{1}{2}$  per cent; making a total of  $6\frac{1}{2}$  per cent for all operating expenses.

Final settlement for the shelled walnut pool, including all culls and shelled walnuts, was made on April 9, the earliest settlement of the kind the association has ever made. Gross sales of this pool came to nearly a million dollars and proved a most encouraging feature of the 1926-27 marketing program. The shelled meats are sold largely in vacuum packed tins.

### SASKATCHEWAN LIVESTOCK ASSOCIATION FUNCTIONING

June first was the day set for the beginning of operation of the Saskatchewan Livestock Cooperative Marketing Association, Ltd., Regina, and the day was marked by the arrival of three cars of stock at the Moose Jaw yards, and two cars at Prince Albert. The time of opening was purposely set for a period of light receipts in order that the sales organization might be perfected to a high degree before the time of heavy shipments. For the present the association will conduct operations on only two yards.

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### MORE BUSINESS FOR ST. PAUL LIVESTOCK AGENCY

Data compiled by the Central Cooperative Association, South St. Paul, indicate that 31.6 per cent of the livestock received at the South St. Paul market during the first four months of 1927 was handled by the association. The percentages for the same periods in 1926 and 1925 were 28 and 26.6, respectively. The number of cars received by the association for the first one-third of each of the three years is: 1925, 6,685 cars; 1926, 6,841; and 1927, 6,913. In April of 1927 the association handled 32.9 per cent of car receipts, compared with 29.4 per cent in April, 1926, and 27.2 per cent in April, 1925.

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### MINNESOTA ASSOCIATION SELLS MANY HOGS

Three hundred sixty-one cars of livestock were shipped by the Farmers' Cooperative Shipping Association, Tyler, Minn., during the year May 1, 1926, to May 1, 1927. These shipments included 20,721 hogs, 1,081 cattle, 2,462 calves, and 220 sheep. Gross receipts from sales amounted to \$656,088, of which the sum of \$637,590 was paid to the producers, \$14,978 went for freight and terminal charges, and the remainder for other expenses. A patronage refund from the commission company amounted to \$595. Cost of shipping all livestock for the year was 31.6 cents per hundredweight, and the operations of the year resulted in net earnings of \$209.

At the annual meeting this year the association decided to ship all consignments to a cooperative commission association at South St. Paul, but a resolution was adopted providing that anyone who had the greater part of a car load shipment could have it consigned to another selling agency by paying an additional 10 cents per hundred to cover the extra expense of marketing.

### INDIANA ASSOCIATION WILL MAKE BUTTERMILK POWDER

Machinery has been installed by the Producers' Creamery, Marion, Ind., for the conversion of buttermilk into powder to be sold as poultry feed. It is expected that the entire output of powder will be used by the farm bureau members in the counties near Marion. The powder is put up in 100-pound sacks and is carried in stock at the farm bureau stores and service stations.

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### NEW CERTIFICATE SERIES ISSUED BY DAIRYMEN'S LEAGUE

Certificates of indebtedness to the amount of \$2,548,545, covering deductions made in the year ending March 31, 1927, will soon be ready for distribution by the Dairymen's League Cooperative Association, Inc., New York City. Approximately 40,000 certificates will be sent out by registered mail. All certificates will be made out in even dollars and none for less than five dollars. They will bear the date of April 1, 1927, and will mature May 1, 1932. To each certificate will be attached five interest-bearing coupons. This series will be designated as "AA."

Approximately \$2,508,638 was distributed to members, as of May 1, 1927, in principal and interest on the Series A certificates falling due on that date, and interest on the certificates of Series B, C, D, and E. Payment was made through 243 banks.

The amount loaned the League by its members in 1921 was \$4,306,634, and the distribution made on May 1 completely met the last payment on this obligation. Anticipating the 1928 maturities, the management has already retired more than \$2,000,000 of next year's obligations.

At the annual meeting held in Binghamton, N. Y., June 16, the president reported that the past year had been one of the most successful in the history of the organization. The quantity of milk handled was 2,224,220,066 pounds, or 64,500,000 pounds more than in the previous year. During eleven months of the year the pool price paid members ranged from one cent to 18 cents above the same month of the previous year.

A number of the addresses made at the annual meeting were broadcast through the stations at New York, Schenectady, Buffalo, Philadelphia and Washington, giving the farmers of practically the entire New York milk shed an opportunity to listen to a part of the meeting.

### COOPERATIVE EGG MARKETING IN ILLINOIS

Egg and poultry sales through the Illinois Cooperative Equity Union Exchange, Effingham, Ill., amounted to \$88,040, in 1926. Of the total more than \$83,000 came from the sale of eggs and more than \$4,000 from the sale of poultry. Members and patrons of the association delivered 281,726 dozens of eggs and 22,271 pounds of live poultry for marketing.

The association was formed in July, 1924, after considerable agitation regarding the cooperative marketing of eggs, and operations were begun on April 19, 1926. At the close of 1926 the organization had a net worth of \$15,610. This included paid-up capital stock to the amount of \$15,460 and earnings to the amount of \$150. The assets included land, buildings and equipment valued at \$18,426.

Operating expenses for the period ending with December 31, 1926, amounted to \$4,951. This was a cost for marketing of 1.76 cents per dozen.

Eggs are sold on grade. An advance is made to producers at the time of delivery, then on the 20th of the following month a final payment is made, based on the returns for the different lots.

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### RELEASE FROM COMPULSORY CONTRACT WORKS SATISFACTORILY

Early in the present year, the Poultry Producers of San Diego, San Diego, Calif., released its members from their compulsory delivery contracts and they are now at liberty to sell their eggs outside the association if they can secure better prices. The management states that this has resulted favorably so far, and seems to have entirely overcome the discontent of members. Receipts of eggs for the first three months of 1927 were somewhat smaller than in the corresponding period last year but returns to members have been on a parity with prices received by nonmembers, and the financial statement for the quarter shows a surplus of \$1,756, while the same period of each of the past two years showed a deficit.

In the year 1926 the association handled 1,694,016 dozen eggs and paid the producers an average of 30.97 cents a dozen, with an additional payment of one cent at the end of the year. Net handling cost was 1.76 cents a dozen. For the first quarter of 1927 this figure was 1.49 cents.

For the past four years the weighted average prices paid members have been as follows: 1923, 30.85 cents; 1924, 30.43; 1925, 36.76; 1926, 31.97.

The annual meeting was held this year on May 17, the date having been changed by a vote of the stockholders at the meeting held February 20, 1926.

### INDIANA FARMERS BUYING COLLECTIVELY

In thirteen counties in Indiana, farm bureau purchasing associations are now functioning, with warehouses, managers, etc. These associations are handling business amounting to more than \$50,000 each. One county association made purchases of nearly \$500,000 last year. In counties without warehouses a car-door business is being handled with the aid of the state organization.

Associations were incorporated recently in ten additional counties for the purpose of creating local purchasing agencies which will operate in connection with the Farm Bureau Purchasing Department, Inc., Indianapolis.

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### STUDY OF COOPERATIVES OTHER THAN AGRICULTURAL

The results of a comprehensive study of the "Cooperative Movement in the United States in 1925 (Other Than Agricultural)" has been published recently by the Bureau of Labor Statistics, U. S. Department of Labor, Bulletin 437. Four types of cooperative societies were found: credit and banking societies, workers' productive societies, consumers' societies, and housing societies. Following a general discussion of the development of the cooperative movement in the United States, detailed information is presented for each group, with many statistics. Copies may be obtained on request to the Bureau of Labor Statistics, Washington, D. C.

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### STATE OIL ASSOCIATION LAUNCHED IN NEBRASKA

Representatives of 15 local cooperative gasoline and oil associations met in Aurora, Nebr., May 31, and launched a state organization to be known as the Nebraska Farmers' Union Cooperative Oil Association. Articles of agreement, presented by a committee, were approved with some minor changes, and adopted. By these articles of agreement the Farmers' Union State Exchange of Omaha was designated as the purchasing agent for the association until the next annual meeting. Representatives of eleven of the locals voted to adopt the articles of agreement and none voted against. The agreement provides that any Farmers' Union association handling petroleum products is eligible to membership upon signing the agreement which continues until dissolved by the members. Associations desiring to withdraw from the federation may do so during a thirty-day period preceding the annual meeting.

### PRICE FACTORS WHICH COOPERATIVES MUST CONSIDER

It is becoming increasingly evident that many of the difficulties which cooperatives encounter in securing maximum returns for their members are the direct result of a lack of understanding of the factors which determine price. Without such an understanding, the formulation of a price and sales policy becomes largely guesswork. Although it is frequently difficult to see clearly the relationship between the many factors, a careful study by members of boards of directors and managers will yield valuable results.

One of the most important price-making factors is the quantity of a given commodity which is available. Usually, supply is thought of as annual production. This, however, is not accurate, for it will be found that the supply factor most nearly related to the price is the sum of the estimated or actual production for the particular year or crop period and the carry over at the beginning of the year.

Demand is an important factor, often overlooked or taken for granted. Farmers, particularly, are prone to give little thought to demand and to look on supply as the important thing. It is probable, however, that demand factors play at least an equal part with supply in determining price. The consumer may want a particular commodity, and yet not have the money with which to satisfy that want. Or there may be some other commodity which is more desired. Under such circumstances, a given quantity of a commodity will not be consumed at its usual price. The factors which determine demand are: general business conditions, the earnings of workers, the relative amount of employment, and the supply and price of those things which can be called competing commodities, that is, those which can be substituted and still satisfy the same demand. It is highly important that cooperatives understand that shipments be so regulated that the market will be supplied with the quantity that it can consume at all times during the marketing season. The proper administration of the supply in the control of the cooperative, so that shipments are not allowed to reach markets already over supplied, but are diverted to others where conditions are more favorable, will tend to increase the average price realized by the members, since few sales are made in glutted markets. At the same time it is probable that there will not be much change in the average annual price for the whole crop.

The managers of cooperatives can not afford to be without the latest, best, and most complete data available on these important phases of their marketing problems. "Rule-of-thumb" methods and "hunches" are a thing of the past in successful present-day business.

A. V. Swarthout.

OUSTER SUIT OF TENNESSEE AGAINST BURLEY ASSOCIATION FAILED

The case of the State of Tennessee on the Relation of the Attorney General v. the Burley Tobacco Growers Cooperative Association, decided by the Court of Appeals of Tennessee, is unique in cooperative litigation. In this case the State of Tennessee, acting through its attorney general, in the summer of 1924 brought suit against the association for the purpose of prohibiting it from transacting business in Tennessee, on the ground that the business in which it was engaged and which it proposed to transact made it an unlawful trust and combination in violation of the antitrust statutes of Tennessee. In August, 1924, the court issued an injunction prohibiting the association from doing business in Tennessee. Later this decree was modified so as to permit the association to perform all contracts made by it with farmers in Tennessee prior to the issuance of the injunction, but in the final order of the trial court the association was perpetually enjoined from doing business in Tennessee. From this decree the association appealed.

In the opinion of the Court of Appeals of Tennessee, which, like other decisions of that court, are not "published," it is said:

It was charged in the bill that this association, in its purposes and methods of operation, and especially in procuring its uniform contract, had been guilty of coercion and suppression of competitors; unfair rivalry, arbitrarily fixing and maintaining prices; limiting production and creating an artificial scarcity of a domestic and commercial article; impairment of quality; decreasing wages and price of materials. It was further charged that the said agreement and said acts of the association were made out of a purpose to lessen full and free competition in the sale of burley tobacco, an article of domestic growth; that said agreements on their face and in effective performance tended to increase the cost of producing burley tobacco and increase the price thereof both to the purchaser and the consumer. In other words, the bill substantially charged that the association was committing acts detrimental to the public welfare, in hurtful and unreasonable restraint of trade.

The association denied all of the matters and things with which it was charged, and insisted that its purpose was to stabilize markets and to prevent speculation and waste and to enable the farmer to obtain the best price for his tobacco at the least cost and expense.

The association was incorporated on January 11, 1922, under the cooperative marketing act of Kentucky. On April 6, 1923, the association filed its charter in the office of the Secretary of State of Tennessee so as to meet the requirements of that state with respect to foreign cooperative associations. It continued to operate in Tennessee until prevented by injunction as stated above.

The Court of Appeals of Tennessee, in reversing the trial court, rendered a long and comprehensive opinion, from which the following extracts are taken.

We hold in the first place that upon the face of the charter, by-laws and marketing agreements of this association, they are not illegally monopolistic. This proposition has already been settled by the Supreme Court in the *Mason and Dunn* cases. There is nothing in the agreement requiring members to limit production. They are not obliged to raise tobacco at all after they join the association. Upon the face of it the association is in effect a selling agency with the middleman eliminated. A mere selling agency is not a monopoly and neither the common law nor the antitrust statute applies to a genuine sales agency. *Brown v. Staple Cooperative Association* (Miss.) 96 Sou. 849. The cooperative marketing system was forced into existence to guarantee fair prices to the producer, a fair wage for the laborer, and to prevent extortion upon the consumer. It has increased consumption by furnishing the consumer a regular supply and at the same time enabled the laborer and the farmer to obtain a remunerative return. It does not appear from the cases that the price to the consumer has been increased beyond the real value of the product. It has been repeatedly held that the expressed purpose of stabilization of the market of an agricultural product is not monopolistic or undue restraint of trade. Stabilization is for the purpose of preventing heavy or serious fluctuations and maintaining an orderly state of the market so that a fair price above the actual cost of production may be maintained at a somewhat fixed and graduated figure. It involves sufficient control of the supply to prevent dumping of the products on the market in such quantities and at such times as would unreasonably depress the price. It even requires at times carrying over at least a part of a crop until a later

time so that in an orderly way and at a fair price the supply may be absorbed by the demand. The products are pooled in the hands of the cooperative marketing association to sell them from time to time under such demand as will bring reasonable prices.

Upon a careful consideration of all of the facts presented in the large record in this cause, we are unable to agree with the conclusions of law or fact reached by the Chancellor as grounds for sustaining the bill in this cause. We do not think that the association in question has practiced unreasonable restraint of trade, fraudulent rivalry or coercion, illegal suppression of competition, undue limitation of production, impairment of quality, decreasing wages or prices of materials; or that it is manifest that such will be the probable effect of the operation of the association.

Inasmuch as the Supreme Court of Tennessee denied the petition of the state for certiorari the opinion of the Court of Appeals in this case is the final word therein.

As an outgrowth of this litigation it is said (see April issue 1927 Tennessee Law Review) that the state of Tennessee enacted a "Capper-Volstead Act," Public Acts of Tennessee, 1925, for that state. Under this statute the commissioner of agriculture of the state is authorized to issue a complaint against any cooperative marketing association organized or doing business in that state if he believes that such an association monopolizes or restrains trade to such an extent that the price of any agricultural product is unduly enhanced by reason thereof. In case the commissioner of agriculture, following a hearing, concludes that the evidence justifies the conclusion that the association has been guilty of unduly enhancing prices, he shall issue an order directing the association to cease and desist from monopolization or restraint of trade. If the order is not obeyed, the attorney general of the state is authorized to take appropriate action for the enforcement thereof. In addition this statute specifically provides that "no injunction or extraordinary process shall issue until such association fails or refuses to comply with the terms and provisions of the warning order of the commissioner of agriculture."

L. S. Hulbert.

OPINION RELATIVE TO CAPPER-VOLSTEAD ACT

The Bureau of Agricultural Economics recently addressed a communication to the Solicitor of the Department of Agriculture reading as follows:

It is assumed that if all, or substantially all, of the producers of any given commodity in the same territory were members of a cooperative association that met the conditions of the Capper-Volstead Act, the association could determine the price at which it would offer the commodity for sale subject to the restriction that it did not unduly enhance the price of the product. In this connection your opinion is requested on the following question: "May two or more separate cooperative associations that meet the condition of the Capper-Volstead Act and which sell the same commodity in competition with each other in the same market, meet in conference for the purpose of entering into price-fixing agreements or understandings, express or implied, so that each association will sell the commodity which it handles at the same price at the same time?"

The following is taken from the opinion of the Solicitor on the question submitted:

The extent to which the Clayton provision, the Capper-Volstead Act and the cooperative marketing act have relieved agricultural producers' associations from the inhibitions of the antitrust laws has not been judicially determined. But the above-quoted observations of the courts with reference to Section 6 of the Clayton Act would seem to be pertinent here. Consideration should therefore be given as well to the things that are not mentioned in the statutes relating to cooperative associations as those which are, because, as above stated, the Sherman Act denounces every contract, combination or conspiracy in restraint of interstate or foreign commerce. The specifically authorized activities are: to act together in processing, preparing for market, handling and marketing their produce; to have marketing agencies in common; to make the necessary contracts and agreements to effectuate these purposes, and to exchange information of certain kinds through their associations or federations thereof. Contracts, agreements or understandings between two or more associations relating to price

fixing are not mentioned and do not seem to be necessarily implied from any language that is used or any provision that is made. They would therefore seem to be unlawful for cooperative associations because they have been held by the Supreme Court of the United States to be in violation of the Sherman Act when made or reached by other organizations. In its recent opinion in Federal Trade Commission v. Pacific Paper Association, 273 U. S. 52, 62, the court said: "An understanding, express or tacit, that the agreed prices will be followed is enough to constitute a transgression of the law."

In view of these considerations, I think it is extremely doubtful whether two or more associations not acting through a common marketing agency could lawfully enter into any contract, agreement or understanding relating to price fixing.

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#### COLORADO ANTITRUST ACT UNCONSTITUTIONAL

On November 14, 1925, a Federal court in Colorado in the case of Frink Dairy Co. et al. v. Cline, District Attorney, 9F (2d) 176, held, following the case of Connolly v. Union Sewer Pipe Co., 184 U. S. 540, that the antitrust act of Colorado was unconstitutional on the ground that it violated the due process and equal protection clauses of the 14th amendment to the Federal constitution, because the cooperative marketing act of that state which was subsequently enacted "exempted the associations which it authorized from the penalties and restrictions of the earlier act." This case was appealed to the Supreme Court of the United States and on May 31, 1927, under the style of Cline v. Frink Dairy Co. et al. that court held the antitrust act of Colorado unconstitutional because the court found that that act was too vague to apprise persons to whom it was addressed of the acts it was intended to prohibit. This situation arose because of two provisions of the act of which the court said:

The effect of the first proviso is that combinations, with the purposes defined in the 1st, 2nd, 3rd, 4th, and 5th paragraphs of section 1, and declared thereby to be unlawful and void, are not to be regarded as unlawful if their purpose shall be to obtain only a reasonable profit in such products or merchandise as can not yield a reasonable profit except by marketing them under the combinations previously condemned. The second is like the first in declaring that it shall not be unlawful or within the condemna-

tory provisions of the act for persons engaged in the business of selling or manufacturing commodities of a class that can only be dealt with at a reasonable profit by such previously condemned trust methods, to employ or own interests in an association having as its object the transportation, marketing or delivering of such commodities at a reasonable profit. These provisos make the line between lawfulness and criminality to depend upon, first, what commodities need to be handled according to the trust methods condemned in the first part of the act to enable those engaged in dealing in them to secure a reasonable profit therefrom; second, to determine what generally would be a reasonable profit for such a business; and third, what would be a reasonable profit for the defendant under the circumstances of his particular business. It would, therefore, be a complete defense for the defendant to prove in this case that it is impossible to sell milk or milk products, except by trust methods and make a reasonable profit, if he also showed that by such methods he had in fact only made a reasonable profit.

The court further said;

It will not do to hold an average man to the peril of an indictment for the unwise exercise of his economic or business knowledge involving so many factors of varying effect that neither the person to decide in advance nor the jury to try him after the fact can safely and certainly judge the result. When to a decision, whether a certain amount of profit in a complicated business is reasonable, is added that of determining whether detailed restriction of particular antitrust legislation will prevent a reasonable profit in the case of a given commodity, we have an utterly impracticable standard for a jury's decision. A legislature must fix the standard more simply and more definitely before a person must conform or a jury can act.

We conclude that the antitrust statute of Colorado is void in that those who are prosecuted and convicted under it will be denied due process of law.

It is significant that the Supreme Court of the United States did not comment on nor refer to the reason given by the lower court for holding the antitrust act of Colorado unconstitutional and the opinion contains not a word with respect to cooperation or the cooperative marketing act of Colorado.

L. S. Hulbert.

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